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SUBJECT: BELGIUM: THREE REGIONAL INVESTMENT AGENCIES WORK TO ATTRACT FOREIGN INVESTMENT

¶1. (U) THIS REPORT IS FOR U.S. GOVERNMENT USE ONLY, AND SHOULD NOT BE POSTED ON THE INTERNET.

SUMMARY

¶2. (U) BelgiumQs three regions -- Flanders, Wallonia, and Brussels -- compete among each other and against neighboring countries for foreign direct investment (FDI) projects. Emboff met with each regionQs professional regional trade investment agency to learn about the strategies used to encourage investment and to determine the affect the economic downturn has had on investment. All three pitch a similar message to prospective investors, especially those from the United States: Invest in Europe by coming to Belgium. Flanders, the Dutch-speaking northern region, has had historical success enticing investors with its major port facilities and multilingual population, marketing itself as a cost effective version of the Netherlands. Wallonia, the French-speaking southern region, continues to develop as an investment destination, aggressively selling itself as a cheaper version of Flanders. Brussels, the capital city region and host to both the European Union and NATO headquarters, promotes itself as the capital of Europe. The economic downturn has adversely affected Belgium, with the number of FDI projects down 19 percent in 2008 from 2007 levels. The United States had more than double the number of FDI projects in 2008 than the next closest country, France. End summary.

BelgiumQs FDI profile

¶3. (U) The United States is the leader in the number of foreign direct investment (FDI) projects in Belgium, followed by France, Germany, the Netherlands, and the United Kingdom.

Number of FDI Projects in Belgium by Investor Country (source: Ernst and Young)

Country	2005	2006	2007	2008
United States	49	45	49	38
France	23	25	21	17
Germany	15	15	13	13
The Netherlands	23	11	14	13
United Kingdom	16	16	16	11
Other	53	73	62	50
Total	179	185	175	142

¶4. (U) Belgium dropped to eighth place among Western European countries in terms of new investment projects in 2008, with 142, as

opposed to 175 new projects in 2007, according to Ernst and Young. But even with that decline, Belgium has still consistently outperformed its closest peer, the Netherlands, in terms of the quantity of new investment projects for the last several years, likely due to its cost competitiveness.

Number of FDI Projects in Europe (Ernst and Young)

Country	2005	2006	2007	2008
United States	559	686	713	686
France	538	565	541	523
Germany	182	286	305	390
Spain	147	212	256	211
Poland	180	152	146	176
Romania	86	140	150	145
Russia	111	87	139	143
Belgium	179	185	175	142
Switzerland	93	136	124	125
The Netherlands	82	95	123	116

¶5. (U) All three Belgian regions measure their success based on the number of realized FDI projects in the region as opposed to using the Euro or dollar value of FDI inflows. Their logic is that FDI projects represent investments in new plants, equipment, and job creation, as opposed to FDI inflows, which the regions say can be inflated by mega deals and large portfolio investments, and can include equity capital, reinvested earnings and intra-company loans. For example, BelgiumQs stock of U.S. direct investment (USDI) was USD 54 billion in 2007, by itself a respectable amount, but dwarfed by the USDI in the United Kingdom (USD 399 billion), the Netherlands (USD 370 billion), and Luxembourg (USD 114 billion). Additionally, though project size obviously matters, the agenciesQ emphasis is not

on trying to capture the Qone large dealQ but on bringing in any number of targeted investments.

Welcome to Belgium, Gateway to Europe

¶6. (U) BelgiumQs three regional investment agencies use the same marketing message: Invest in Europe by coming to Belgium. All three have done their market research and understand that the name QBelgiumQ does not have strong brand recognition among potential American and non-European investors. Each agency has representatives abroad that serve either in embassies or in dedicated trade offices. Through a convention that determines where each agency is located, representatives in many instances work for the other agencies to reduce duplication and ensure that every country is covered. Each recognizes that its region is an entry point for new and continued expansion into the western European market, especially to neighboring France, Germany, the Netherlands, and the United Kingdom--and emphasizes its central location for logistics combined with excellent infrastructure, low-cost real estate (compared to the main foreign competitor, the Netherlands), and an educated, multilingual population. Additionally, the regions also tout a particular Belgian tax incentive, the notional interest deduction, that has the effect of creating lower actual tax obligations.

FDI Snapshot for the Regions

¶7. (U) The leading sectors for both Wallonia and Flanders are in logistics, automotive, the food and life sciences, and high technology. Flanders also has a dynamic chemical industry clustered around its leading port, Antwerp. Brussels also has some investment in the automotive, life sciences, and high technology sectors, and its function as the EU capital naturally also has helped it attract international organizations and others who desire to be close to EU government decision-makers. Some important U.S. investors in Brussels are Baxter, GE, Oracle, FedEx, and the Bank of New York. Wallonia has U.S. companies Caterpillar, Johnson & Johnson, Google, and Microsoft, while Flanders counts Exxon-Mobil, DuPont, Ford, Nike, and Proctor and Gamble.

Number of FDI Projects in Belgium, By Region (Ernst and Young)
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	2005	2006	2007	2008

Brussels	31	33	42	28
Wallonia	38	47	44	40
Flanders	110	105	89	74
Total	179	185	175	142

Wallonia -- Trying Harder to Overcome Its Past
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¶8. (U) The Wallonia Export and Inestment Agency (AWEX) (45 employees) has the job of trying to turn WalloniaQs economic fortunes around. Wallonia is home to about 40 percent of BelgiumQs almost 11 million inhabitants, and was once a leading industrial region, but its fortunes began to fall in the middle of the 20th century, and now it is better known for antiquated steel mills and high unemployment. To try to turn things around economically, the regional government of Wallonia launched in 2005 its economic recovery program, the QMarshall Plan,Q and funded it with 1.5 billion Euros. The Marshall Plan has five pillars: create competitive clusters, stimulate business start-ups, reduce corporate taxes, boost research and development in association with companies, and generate job skills. The plan is geared to promote Qgreenfield knowledge, commercial and industrial parks outside the main cities of each of the regionQs five provinces. AWEX, infused with a Qwe try harderQ mind-set, has had some success, as the regionQs share of the total number of FDI projects in Belgium has increased since
¶2005. High profile names include Google and Microsoft. In 2008, AWEX calculated that Wallonia received new project investments totalling 535 million Euros, 201 million Euros of which from U.S. investors.

¶9. (SBU) Each province in Wallonia also has its own investment agency that coordinates with AWEX, and each is in charge of managing the local Marshall Plan-based business park and ensuring investors needs are being met. Most of the business parks have been tailor-made to fit the needs of high-tech companies. For example, Wallonia hosts one of the few life science research companies in the world that works on specialized pathogens. In postQs opinion, AWEX comes across as having a well-thought out plan to attract investment

that takes advantage of its logistical assets and lower costs. On the negative side, Wallonia must work to overcome its reputation as an economic has-been, and while its university system is good, its younger students score below their Flemish counterparts on most international tests.

Flanders Still Leads

¶10. (SBU) The Flanders Investment and Trade (FIT) agency (168 employees), seeks investments to flow to the region as a logical consequence of the Netherlands becoming prohibitively expensive and logistically congested. In emboffQs discussions with FIT officials, the organization came off as a professional investment agency that appeared to lack the drive and clearly-defined plan of AWEX, which attempts to promote Wallonia as a lower-cost alternative to Flanders. But nonetheless, Flanders continues to attract about half the FDI projects in the country, with 74 in 2008 at a value around 945 million Euros, according to FIT. The Flemish competitive advantage of a well-educated population that is fluent in English and other languages, combined with a world-class port in Antwerp and excellent location to service much of Europe, still entices investors who may feel more comfortable with the part of Belgium most similar to the Netherlands. Flanders also has a strong entrepreneurial bent to go with its excellent universities and educational system. Its main negative is its increasingly congested traffic around Antwerp.

Brussels Region - Selling Itself as EuropeQs Capital
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¶11. (U) The Brussels Enterprise Agency (BEA) (58 employees) pursues different investors then the other two regions, seeking to leverage the importance of Brussels as the home of the European Union and North Atlantic Treaty Organization to attract government lobbying entities and non-governmental organizations (NGO), in addition to high technology companies. Thus while Wallonia and Flanders pursue

large and very large companies in search of greenfield projects, BEA is content to reach out to small and medium-sized investors, and tries to locate the legal or government affairs departments of large corporations inside the city limits. One unique incentive that Brussels has successfully used is an in-house incubator office space, allowing companies to set up shop rent-free for three months while they test the waters. BEA considers the Flanders region as a rival because many neighborhoods that appear to be in Brussels actually lie outside of the cityQs (and the Brussels regionQs) legal boundaries. Thus the Brussels airport and all of its adjacent office buildings are actually in Flanders, and any investments taking place there are counted as such in FDI project rankings. Outside of Belgium, the city of Amsterdam is considered by BEA to be BrusselsQ main rival. BEA is confident about the future of Brussels, even though 2008 saw a large fall in FDI projects from 2007 levels; the agency believes that the city/regionQs role as EuropeQs capital will continue to increase its importance for investors.

Promoting Regions, Not Belgium

¶12. (SBU) In a country without a strong national identity to prospective outside investors, where regional differences are often sharp, it is not surprising that each region looks to promote investment on its own, much as U.S. states may compete against each other for FDI. WalloniaQs AWEX appears to have a solid future, due to its Marshall Plan, which has been endorsed by the new regional government elected in June, 2009. Its emphasis on business parks and competitive clusters, and a high level of service to ensure investorQs needs are met, appear to be working for Wallonia despite the economic downturn. Flanders has many of the right features to attract investors, such a very educated, English-speaking population and a first-rate location and infrastructure base, but by competing on price against the Netherlands, it has set itself up to be potentially undercut by less expensive Wallonia. Finally, Brussels appears to be in a decent position, but its investment agency will need to continue to convince potential investors that the Qcapital of Europe,Q with its central location and access to decision makers, is reason enough to set up a new office. And while each region has its legitimate attractions selling themselves as the entry point for investing in Europe, each also has to try to overcome issues outside its control, especially BelgiumQs unenviable position as one of the highest-taxed and most indebted countries in the European Union.

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